EDGEWATER MEDICAL CENTER

BALANCE SHEETS

AS OF DECEMBER 31, 1992 AND 1991

ASSETS	1992	1991
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,532,059	$ 477,436
Accounts receivable, less allowance for uncollectible accounts of approximately $3,249,000 and $2,101,000, for 1992 and 1991, respectively	10,821,164	8,312,784
Other receivables	255,238	274,837
Inventories, at cost	725,167	731,851
Prepaid expenses	951,739	801,324
Notes receivable from related parties	-	471,000
Estimated amounts due from third-party payors	1,168,196	1,087,052
Total current assets	15,453,563	12,156,284
ASSETS LIMITED AS TO USE (at cost, except deferred compensation trust funds, which are at market):		
Self-insurance trust	167,212	157,954
Investments	350,743	1,853,718
Deferred compensation trust	965,189	950,050
Total assets limited as to use	1,483,144	2,961,722
PROPERTY AND EQUIPMENT, at cost:		
Building and leasehold improvements	2,432,938	1,843,082
Equipment and equipment under capital leases	8,243,435	7,360,812
Construction in progress	630,017	197,324
Total property and equipment	11,306,390	9,401,218
Less- Accumulated depreciation	(3,609,946)	(2,355,716)
Net property and equipment	7,696,444	7,045,502
CONTINGENT ASSETS	-	-
	$24,633,151	$22,163,508

The accompanying notes to financial statements are an integral part of these balance sheets.

EDGEWATER MEDICAL CENTER

BALANCE SHEETS

AS OF DECEMBER 31, 1992 AND 1991

LIABILITIES	1992	1991
CURRENT LIABILITIES:		
Current portion of bank loan	$ 712,000	$ 4,201,837
Accounts payable	2,625,337	2,619,204
Insurance premium financing payable	431,184	447,255
Accrued payroll and taxes	1,387,084	1,485,055
Other accrued expenses	1,056,778	1,045,723
Current portion of capital lease obligations	335,601	335,601
Estimated amounts due to third-party payors	4,491,311	1,813,849
Total current liabilities	11,039,295	11,948,524
DUE TO THIRD-PARTY PAYORS (see Note 8)	3,932,229	3,932,229
RESERVE FOR SELF-INSURANCE CLAIMS	1,499,762	2,117,474
DEFERRED COMPENSATION OBLIGATION	965,189	950,050
CAPITAL LEASE OBLIGATIONS, less current portion	372,636	689,646
LONG-TERM DEBT, including accrued interest:		
Related parties	4,060,000	7,635,207
Bank loans	5,517,517	-
Total long-term debt	9,577,517	7,635,207
SHAREHOLDERS' EQUITY:		
Common stock, $.01 par value; 1,000 shares authorized; 100 shares issued and outstanding	1	1
Retained deficit	(2,753,478)	(5,109,623)
Total shareholders' equity	(2,753,477)	(5,109,622)
	$24,633,151	$22,163,508

The accompanying notes to financial statements are an integral part of these balance sheets.

EDGEWATER MEDICAL CENTER

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1992 AND 1991

	1992	1991
REVENUE:		
Net patient service revenue	$53,761,209	$47,475,628
Other operating revenue	855,394	1,249,462
Interest income	111,685	147,849
Total revenue	54,728,288	48,872,939
EXPENSES:		
Salaries, wages and employee benefits	21,764,071	20,605,562
Purchased services and physician fees	6,359,075	5,884,515
Supplies	5,054,238	4,567,594
General overhead and maintenance	6,541,541	6,964,064
Depreciation	1,254,600	1,055,406
Interest	1,341,557	1,371,759
Real estate and sales taxes	607,025	573,019
Bad debt expense	7,766,699	5,820,899
Other	1,097,387	1,420,142
Total expenses	51,786,193	48,262,960
Income before Illinois Medicaid Provider Tax	2,942,095	609,979
ILLINOIS MEDICAID PROVIDER TAX	585,950	-
NET INCOME	$ 2,356,145	$ 609,979

The accompanying notes to financial statements are an integral part of these statements.

EDGEWATER MEDICAL CENTER

STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1992 AND 1991

	Common Stock	Retained Deficit
BALANCE AT DECEMBER 31, 1990	$1	$(5,719,602)
Net income--1991	-	609,979
BALANCE AT DECEMBER 31, 1991	1	(5,109,623)
Net income--1992	-	2,356,145
BALANCE AT DECEMBER 31, 1992	$1	$(2,753,478)

The accompanying notes to financial statements are an integral part of these statements.

EDGEWATER MEDICAL CENTER

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1992 AND 1991

	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$2,356,145	$ 609,979
Adjustments to reconcile net income to net cash provided by (used for) operating activities-		
Depreciation	1,254,600	1,055,406
Increase in accounts receivable	(2,508,380)	(1,178,224)
Net change in estimated amounts due from/to third-party payors	2,596,318	1,324,692
Decrease in accounts payable, accrued payroll and taxes, and other accrued expenses	(80,783)	(456,550)
(Decrease) increase in reserve for self-insurance claims	(617,712)	513,900
Net change in other assets and liabilities	345,936	(1,970,912)
Total adjustments	989,979	(711,688)
Net cash provided by (used for) operating activities	3,346,124	(101,709)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in assets limited as to use	1,478,578	468,847
Property and equipment additions, net	(1,905,542)	(1,572,823)
Net cash used for investing activities	(426,964)	(1,103,976)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt	6,500,000	2,086,024
Payments of debt and net change in accrued interest	(8,047,527)	193,162
Decrease in capital lease obligations	(317,010)	(663,857)
Net cash (used for) provided by financing activities	(1,864,537)	1,615,329
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,054,623	409,644
CASH AND CASH EQUIVALENTS, beginning of year	477,436	67,792
CASH AND CASH EQUIVALENTS, end of year	$1,532,059	$ 477,436

The accompanying notes to financial statements are an integral part of these statements.

EDGEWATER MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1992 AND 1991

1. CORPORATE STRUCTURE:

Edgewater Operating Company, d/b/a, Edgewater Medical Center (the "Medical Center") is an Illinois business corporation established for the purpose of providing health care services. The Medical Center is owned 70% by a primary shareholder and 30% owned by each of the primary shareholder's three children in equal shares which are held in trust. The Medical Center began operations January 21, 1989, when the primary shareholder purchased all the assets and liabilities of The Edgewater Hospital, Inc. The primary shareholder of the Medical Center is also the sole shareholder of the Edgewater Property Company, a related party. Edgewater Property Company's sole business is leasing property to the Medical Center.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Depreciation

Depreciation of property and equipment is provided over the estimated useful lives of the assets using the straight-line method. Useful lives range from 2 to 40 years for building and leasehold improvements and 2 to 20 years for equipment. One-half year of depreciation is taken in the year of acquisition and in the year of disposal.

b. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated contractual allowances under reimbursement agreements with third-party payors. Approximately 81% and 79% of the Medical Center's revenue from patient services are derived from the Medicare, Medicaid and Blue Cross programs in 1992 and 1991, respectively. Payments under these programs are based on a specific amount per case, a contracted price, or costs, as defined, of rendering services to program beneficiaries. The Medical Center provides contractual allowances on a current basis for the differences between charges for services rendered and the expected payments under these programs. Contractual allowances are netted against gross patient service revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

c. Cash and Cash Equivalents and Assets Limited As To Use

The Medical Center considers all marketable short-term securities, not otherwise restricted, having an original maturity of 90 days or less to be cash equivalents.

Assets limited as to use, which principally consist of certificates of deposit, are carried at cost, which approximates market.

d. Income Taxes

The Medical Center is an S Corporation, as defined by U. S. tax law, for purposes of filing its U. S. Federal and state income tax returns. Accordingly, no provision for income taxes has been recorded in the accompanying statements of income.

e. Illinois Medicaid Provider Tax

The Illinois General Assembly enacted a tax for all Illinois hospitals licensed under the Illinois Hospital Licensing Act. The purpose of the tax is to fund the Illinois Medicaid Program. The tax is payable quarterly during the period July 1, 1992, to June 30, 1993, and is equal to 2.5% of the Hospital's net patient service revenue, as defined.

f. Cash Flow Information

Cash paid for interest during 1992 and 1991 was $2,348,927 and $856,597, respectively.

3. PROFESSIONAL LIABILITY INSURANCE:

Effective October 1, 1989, the Medical Center became self-insured for all future medical malpractice and general liability claims for the first $2,000,000 per claim and $4,000,000 aggregate per year. Professional liability claims above the self-insurance layer, up to a limit of $10,000,000, are covered with purchased insurance.

The Medical Center has partial self-insurance and deductible liabilities relating to the liabilities associated with quota-share participation in certain layers of insurance between December 15, 1986, and September 30, 1989, and a deductible of $20,000 per claim for the period October 1, 1988, to September 30, 1989. According to the Medical Center's actuary, the liability for estimated losses for these "tail" liabilities from December 15, 1986, through September 30, 1989. The coverage periods range from $37,000 to $458,000 at December 31, 1992. The minimum liability ($37,000) has been reserved for in the accompanying financial statements as a part of reserve for self-insurance claims. Retrospective premium adjustments for these same time periods is included as part of the tail liability above.

It is the opinion of management that the reserve for self-insurance claims and other professional liability reserves at December 31, 1992, is adequate to provide for possible losses resulting from malpractice claims.

4. DEFERRED COMPENSATION TRUST FUND AND OBLIGATION:

Prior to the change in ownership on January 21, 1989, a nonqualified, deferred compensation program was offered to employees. Due to the Medical Center's tax status as a taxable corporation, the program is no longer offered to employees. Under the purchase agreement, the Medical Center has retained ownership and control of the funds and is liable for payments to participants.

5. BANK LOANS AND FINANCING ARRANGEMENTS:

The Medical Center's bank loans at December 31, 1992 and 1991, are summarized as follows:

	1992	1991
Loan payable to Boulevard Bank National Association (Boulevard Bank) due May 31, 1992, with interest payable monthly at 1-1/4% above the prime rate (7.75% at December 31, 1991)	$ -	$1,683,600
Construction loan payable to Boulevard Bank due May 31, 1992, with interest payable monthly at 1-1/4% above the prime rate (7.75% at December 31, 1991)	-	2,445,074
Loan payable to Boulevard Bank, due August 31, 1999, with principal and interest payable in equal monthly installments, interest at .25% above the prime rate (6.25% at December 31, 1992)	6,229,517	-
Accrued interest	-	73,163
Subtotal	6,229,517	4,201,837
Less- Current portion	712,000	4,201,837
Total bank loans	$5,517,517	$ -

The Medical Center is required to comply with certain restrictive covenants under the existing loan agreement with Boulevard Bank. The most restrictive covenants require that the Medical Center have a debt service ratio of not less than 1.5 to 1; a current ratio of not less than 1.2 to 1; and that the Medical Center combined with the Edgewater Property Company have retained earnings of not less than $2,000,000 at December 31, 1992, and for each December 31 thereafter that combined retained earnings must increase by not less than $2,000,000 over the prior year.

Principal payments will vary with the change in the prime rate. However, future maturities of bank loans will not be less than approximately $712,000 in 1993, $803,000 in 1994, $870,000 in 1995, $942,000 in 1996, $1,020,000 in 1997 and $1,883,000 thereafter.

Lines of Credit

The Medical Center has a line of credit with Boulevard Bank which provides available credit of up to $1,000,000 as of December 31, 1992, and $2,000,000 as of December 31, 1991. At December 31, 1992 and 1991, $0 and $1,683,600, respectively, were outstanding under these arrangements. In addition, the Medical Center had a construction loan commitment of $5,000,000 with Boulevard Bank in 1991, of which $2,445,074 was outstanding as of December 31, 1991.

Guarantees of Debt

The Medical Center has guaranteed the Edgewater Property Company's $2,000,000 term loan in 1992 and the Edgewater Property Company's $2,000,000 nonrevolving

line of credit in 1991. The amounts outstanding under these agreements as of December 31, 1992 and 1991, were $1,916,697 and $2,000,000, respectively. Also, the Edgewater Property Company has guaranteed the Medical Center bank loan, and the primary shareholder has guaranteed a portion of that same loan.

Letters of Credit

The Medical Center has obtained irrevocable bank letters of credit guarantees with various companies and various expiration dates. At December 31, 1992 and 1991, outstanding letters of credit were $292,500 and $1,928,930, respectively.

As part of the letters of credit agreements, the Medical Center has an agreement with the bank to keep approximately $297,000 and $1,854,000 at December 31, 1992 and 1991, respectively, in investments on hand as a compensating balance. These investments are reflected under Assets Limited as to Use on the accompanying balance sheet.

Insurance Premium Financing

The Medical Center has entered into a short-term financing agreement with Premium Financing Specialists, Inc. in 1992 in order to finance professional and general liability insurance premiums. The financing is scheduled to be paid off in monthly installments through June 30, 1993. The outstanding liability at December 31, 1992, is approximately $431,000. The interest rate on this financing is at 6.50%.

The Medical Center engaged in a similar short-term financing agreement with Whirlpool Corporation in 1991 to finance professional and general liability insurance premiums. This financing was paid off in monthly installments through June 30, 1992. The interest rate on this financing was at 7.25%.

6. LOANS AND TRANSACTIONS WITH RELATED PARTIES:

The Medical Center debt with related parties at December 31, 1992 and 1991, is summarized as follows:

	1992	1991
Edgewater Property Company loan--13.5% interest payable monthly, no specific due date for principal (see discussion below related to refinancing)	$4,060,000	$4,060,000
Various loans to shareholder and shareholder's spouse, interest ranges from 10.0% to 13.5%, payable monthly	-	1,716,000
Shareholder line of credit--13.5% interest payable monthly	-	925,000
Accrued interest	-	934,207
Long-term debt from related parties, including accrued interest	$4,060,000	$7,635,207

In February, 1993, the Medical Center paid off the $4,060,000 loan to Edgewater Property Company by refinancing the same loan amount with Boulevard Bank. The

new loan is payable in monthly installments of principal and interest commencing March 31, 1993, until maturity on August 31, 1999. The loan is subject to the same restrictions and covenants as the bank loan outstanding at December 31, 1992 (Note 5). The Edgewater Property Company has guaranteed the subsequent $4,060,000 bank loan. The primary shareholder has also guaranteed a portion of this loan.

The Medical Center has entered into an agreement with the primary shareholder to provide supervisory services and to arrange for capital financing for the Medical Center through March, 1993. The total amount paid in 1992 and 1991 to the primary shareholder and other related parties (excluding rent expense, pass-through real estate taxes and payroll-related costs) is as follows:

	1992	1991
Supervisory and other services	$520,000	$573,525
Other	90,952	72,506
	$610,952	$646,031

In addition, there was $471,000 in notes receivable from related parties outstanding at December 31, 1991, which consisted of two notes for $50,000 each due September 30, 1992, at prime plus 2% interest; and one note for $371,000 due May 21, 1992, at prime plus 2% interest. These notes are no longer outstanding as of December 31, 1992.

The condensed financial position and results of operations of Edgewater Property Company are as follows:

	1992	1991
	(Unaudited)	
Total assets, including receivables from the Medical Center of $4,198,291 at December 31, 1992, and $4,572,778 at December 31, 1991	$7,587,651	$7,712,589
Total liabilities	1,916,697	2,018,338
Total equity	$5,670,954	$5,694,251

	Dec.31,1992	Dec.31,1991
	(Unaudited)	
Total cash receipts	$4,560,875	$2,916,088
Total cash disbursements	(2,610,172)	(486,313)
Excess of receipts over disbursements	$1,950,703	$2,429,775

Also, see Notes 1, 5, 7 and 8 for discussion of transactions with related parties.

7. CAPITAL LEASE OBLIGATIONS:

The Medical Center leases certain equipment under capital leases. Future minimum lease payments under these leases as of December 31, 1992, are as follows:

Year ending December 31-	
1993	$469,731
1994	354,465
Total minimum lease payments	824,196
Less-	
Amount representing interest	(115,959)
Current principal portion	(335,601)
Long-term capital lease obligation	$372,636

The Medical Center has an operating lease agreement to lease the Medical Center premises from the Edgewater Property Company through December 31, 2004. According to the agreement, the annual amount of rent increases shall be 5%. The total amount of rent expense incurred and paid in 1992 and 1991 was $3,031,875 and $2,887,500, respectively.

8. THIRD-PARTY PAYOR PROGRAMS:

The Medicare intermediary has withheld approximately $3,932,000 from the Medical Center as a tentative settlement of the total amount due to the Medicare program for the 1989 and 1990 cost reporting years from an amount due the seller under its final January 21, 1989, Medicare cost report. The Medical Center anticipates that the Medicare intermediary may require any payments due, up to the $3,932,000, when the 1989 and 1990 cost reports are finalized, be part of the settlement of the seller's cost report. Accordingly, as finalization of the reports are not expected before January 1, 1994, the $3,932,000 due to third-party payors is classified as long term in the accompanying balance sheets.

The Medical Center has fully reserved certain third-party reimbursement issues relating to Medicare cost reporting years ended December 31, 1989 and 1990, in which the intermediary's audits have not been finalized. These liabilities are reflected in the accompanying financial statements. Management of the Medical Center believes it will prevail in its position on certain issues with the Medicare intermediary. If successful, the Medical Center would receive up to $1,600,000 (unaudited) additional Medicare reimbursement which would be reflected as income in the future.

9. RECLASSIFICATIONS:

Certain 1991 amounts have been reclassified to conform with the 1992 presentation.

APPENDIX C

FORECASTED FINANCIAL STATEMENTS

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NORTHSIDE OPERATING COMPANY

FORECASTED FINANCIAL STATEMENTS

Coopers & Lybrand

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NORTHSIDE OPERATING COMPANY
FORECASTED FINANCIAL STATEMENTS

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Coopers & Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

Report of Independent Accountants

The Board of Directors
Permian Health Care, Inc. and
Northside Operating Company

Ladies and Gentleman:

We have examined the accompanying forecasted balance sheets as of December 31, 1994 through 1998 and the related forecasted statements of revenues and expenses, cash flows, and changes in fund balances of Northside Operating Company for the five months ending December 31, 1994 and the years ending December 31, 1995 through 1998. Our examination was made in accordance with standards for an examination of a forecast established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecasts.

As discussed in the "Methodology For Forecasting Demand For Services - Impacts of National Health Care Reform" during October 1993, the President submitted to Congress for its consideration the Health Security Act of 1993 (the "Act"). Alternative legislation has been introduced by various members of Congress. The objective of the Act and such other proposed legislation is to alter substantially the health care delivery system. The ultimate impact of the Act or other proposed legislation cannot be presently determined as it may be subject to change from its present form through the normal legislative process. Accordingly, no effect of the Act or other proposed legislation has been included in the accompanying forecasted financial statements.

In our opinion, the accompanying forecasts are presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecasts. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Our examination of the financial forecasts was made for the purpose of forming an opinion on whether the financial forecasts are presented in conformity with AICPA guidelines for the presentation of a forecast and the underlying assumptions provide a reasonable basis for the forecast. The forecasted statement of debt service coverage and days cash on hand is presented for purposes of additional analysis and is not a required part of the financial forecast. Such information has been subjected to procedures applied in the examination of the financial forecast and, in our opinion, is fairly stated in all material respects in relation to the forecast taken as a whole. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Coopers & Lybrand LLP

Los Angeles, California
August 12, 1994

FORECASTED FINANCIAL STATEMENTS

NORTHSIDE OPERATING COMPANY
FORECASTED BALANCE SHEETS
DECEMBER 31, 1994 THROUGH 1998
(Dollars in Thousands)

	1994	1995	1996	1997	1998
ASSETS					
Cash and cash equivalents	$878	$3,089	$3,585	$5,644	$8,594
Accounts receivable, net	12,225	12,561	12,995	13,433	13,946
Other receivables	200	200	200	200	200
Inventories	864	886	938	992	1,050
Prepaid expenses	648	965	1,041	1,057	1,074
Assets limited as to use	144	300	328	358	392
Estimated amounts due from third-party payors	436	229	215	215	215
Total current assets	15,395	18,230	19,301	21,900	25,470
Assets limited as to use:					
Construction Fund	1,709				
Funds held by trustee under bond indenture	4,100	4,100	4,100	4,100	4,100
Self-insurance trust	200	220	240	240	240
Investments	1,000	1,000	1,000	1,000	1,000
Deferred compensation trust	1,000	1,030	1,060	1,060	1,060
Total Assets Limited As To Use	8,009	6,350	6,400	6,400	6,400
Property and Equipment:					
Land	889	889	889	889	889
Building and leasehold improvements	26,571	28,404	28,404	28,404	28,404
Equipment and equipment under capital lease	6,800	8,000	9,200	10,400	11,600
Less accumulated depreciation	(697)	(2,624)	(4,672)	(6,839)	(9,126)
Property, plant, and equipment, net	33,564	34,669	33,822	32,855	31,767
Goodwill and intangibles, net	2,610	2,477	2,344	2,210	2,077
Deferred financing costs, net	809	781	754	727	699
TOTAL ASSETS	$60,386	$62,508	$62,621	$64,092	$66,414
LIABILITIES					
Current portion of long term debt	$144	$300	$328	$358	$392
Accounts payable	2,677	2,824	2,956	2,632	2,778
Insurance premium financing payable	780	780	780	780	780
Accrued payroll and taxes	1,366	1,402	1,462	1,525	1,589
Other accrued expenses	1,273	1,110	780	1,190	671
Current portion of capital lease obligation	292	292	182	53	382
Estimated amounts due to third-party payors	3,776	3,164	1,713	1,713	1,713
Total current liabilities	10,308	9,872	8,201	8,250	8,305
Reserve for self-insurance	2,256	2,392	2,535	2,687	2,848
Deferred compensation obligations	1,000	1,030	1,060	1,060	1,060
Capital lease obligation, less current portion	526	235	53	0	1,000
Long term debt	44,856	44,556	44,228	43,870	43,478
TOTAL LIABILITIES	58,947	58,084	56,077	55,867	56,691
FUND BALANCE	1,439	4,423	6,543	8,224	9,723
TOTAL LIABILITIES AND FUND BALANCE	$60,386	$62,508	$62,621	$64,092	$66,414

See Accompanying Summary of Significant Forecast Assumptions and Accounting Policies

NORTHSIDE OPERATING COMPANY
FORECASTED STATEMENTS OF REVENUES AND EXPENSES
FROM AUGUST 1, 1994 THROUGH DECEMBER 31, 1994
AND FOR THE YEARS ENDING DECEMBER 31, 1995 THROUGH 1998
(Dollars in Thousands)

	8/1 -12/94	1995	1996	1997	1998
Patient care revenues, net	$24,939	$61,129	$63,240	$65,373	$67,870
Other operating revenue	365	890	890	890	890
Interest income	137	328	328	328	328
Total operating revenues	25,440	62,347	64,458	66,591	69,088
Operating expenses:					
Salaries and employee benefits	9,929	24,305	25,352	26,438	27,562
Purchased services	3,484	8,622	9,031	9,555	10,108
Supplies	2,481	6,067	6,422	6,797	7,192
General overhead and maintenance	2,617	6,645	7,167	7,280	7,399
Other	548	1,368	1,422	1,479	1,538
Depreciation	697	1,927	2,047	2,167	2,287
Amortization	67	161	161	161	161
Interest	1,719	4,081	4,226	4,198	4,167
Illinois Medicaid provider tax	674	1,849	1,940	2,020	2,132
Bad debts	1,814	4,420	4,684	4,962	5,254
Total operating expenses	24,029	59,443	62,453	65,057	67,799
Net operating income	1,411	2,903	2,005	1,534	1,288
Non-operating revenue	28	81	115	147	210
Excess of revenues over expenses	$1,439	$2,984	$2,120	$1,681	$1,498

See Accompanying Summary of Significant Forecast Assumptions and Accounting Policies

NORTHSIDE OPERATING COMPANY
FORECASTED STATEMENTS OF CASH FLOWS
FROM AUGUST 1, 1994 THROUGH DECEMBER 31, 1994
AND FOR THE YEARS ENDING DECEMBER 31, 1995 THROUGH 1998
(Dollars in Thousands)

	8/1-12/94	1995	1996	1997	1998
Cash flows from operating activities and gains and losses:					
Excess of revenues over expenses	$1,439	$2,984	$2,120	$1,681	$1,498
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	764	2,088	2,208	2,328	2,448
Increase in net accounts receivable	(987)	(336)	(434)	(438)	(513)
Net change in estimated amounts due from/to third-party payors	(1,000)	(405)	(1,437)		
Decrease (increase) in accounts payable, accrued payroll and taxes, and other accrued expenses	(621)	19	(138)	148	(308)
Increase in reserve for self-insurance claims	128	135	143	152	161
Net change in other assets and liabilities	755	(308)	(98)	(71)	(75)
Net cash provided by operating activities	478	4,178	2,365	3,800	3,212
CASH FLOWS FROM INVESTING ACTIVITIES:					
Increase (decrease) in assets limited as to use	269	1,502	(78)	(30)	(33)
PP&E additions and intangibles	(1,709)	(3,033)	(1,200)	(1,200)	(1,200)
Net cash used for investing activities	(1,440)	(1,531)	(1,278)	(1,230)	(1,233)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Payments of debt		(144)	(300)	(328)	(358)
Capital lease obligations	(382)	(292)	(292)	(182)	1,330
Net cash (used for) provided by financing activities	(382)	(435)	(592)	(510)	971
Net increase (decrease) in cash and cash equivalents	(1,344)	2,212	496	2,059	2,949
Cash and cash equivalents, beginning of year	2,222	878	3,089	3,585	5,644
Cash and cash equivalents, end of year	$878	$3,089	$3,585	$5,644	$8,594

Interest payments relating to borrowings are forecasted to be $1,766, $4,239, $4,226, $4198 and $4,167 from 1994 through 1998, respectively.

See Accompanying Summary of Significant Forecast Assumptions and Accounting Policies

NORTHSIDE OPERATING COMPANY
FORECASTED STATEMENTS OF CHANGES IN FUND BALANCES
FROM AUGUST 1, 1994 THROUGH DECEMBER 31, 1994
AND FOR THE YEARS ENDING DECEMBER 31, 1995 THROUGH 1998
(Dollars in Thousands)

Balance at August 1, 1994	$0
Excess of revenues over expenses, 1994	1,439
Balance at December 31, 1994	1,439
Excess of revenues over expenses, 1995	2,984
Balance at December 31, 1995	4,423
Excess of revenues over expenses, 1996	2,120
Balance at December 31, 1996	6,543
Excess of revenues over expenses, 1997	1,681
Balance at December 31, 1997	8,224
Excess of revenues over expenses, 1998	1,498
Balance at December 31, 1998	$9,723

See Accompanying Summary of Significant Forecast Assumptions and Accounting Policies

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NORTHSIDE OPERATING COMPANY
FORECASTED STATEMENTS OF DEBT SERVICE COVERAGE AND DAYS CASH ON HAND
FROM AUGUST 1, 1994 THROUGH DECEMBER 31, 1994
AND FOR THE YEARS ENDING DECEMBER 31, 1995 THROUGH 1998
(Dollars in Thousands)

	8/1 - 12/94	1995	1996	1997	1998
Forecasted Debt Service Coverage:					
Excess revenues over expenses	$1,439	$2,984	$2,120	$1,681	$1,498
Plus - depreciation and amortization	764	2,088	2,208	2,328	2,448
Plus - Interest	1,719	4,081	4,226	4,198	4,167
Income available for debt service	3,922	9,153	8,554	8,207	8,114
Debt service requirements - excluding subordinated debt	1,759	4,274	4,417	4,308	4,179
Debt service coverage ratio - excluding subordinated debt	2.23	2.14	1.94	1.91	1.94
Debt service requirements - subordinated debt	167	400	400	400	400
Overall debt service coverage ratio	2.04	1.96	1.78	1.74	1.77
Days cash on hand	22	37	39	50	66

See Accompanying Summary of Significant Forecast Assumptions and Accounting Policies

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

This financial forecast presents the expected balance sheets, statements of revenues and expenses, cash flows, and changes in fund balances for the forecast period assuming the acquisition of Edgewater Medical Center ("the Medical Center") by Northside Operating Company ("Northside") on August 12, 1994. In addition, a schedule of forecasted debt service is also included. Accordingly, the forecast reflects Management's judgment, as of August 12, 1994, of the expected conditions and Northside's course of action. The assumptions disclosed herein are those that Management believes are significant to the forecast. There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

The forecasted financial statements are presented in conformance with generally accepted accounting principles expected to be utilized during the forecast period. The Methodology For Forecasting Demand For Services is an integral part of the Summary of Significant Forecast Assumptions and Accounting Policies and should be read in conjunction with the forecasted financial statements.

This forecast has been prepared for the purpose of the acquisition of the Medical Center which is to be financed by the issuance of tax-exempt revenue bonds. Management does not intend to release updated financial forecasts in the future. Because subsequent events and circumstances will differ from those assumed as of the date of this forecast, the forecasted results should be evaluated in light of such subsequent events and circumstances.

The 1991, 1992, and 1993 information presented is based on historical operating activity.

1. <u>Summary of Significant Forecast Assumptions and Accounting Policies:</u>

<u>Organization</u>

Pursuant to an Agreement of Merger dated November 19, 1993, Northside Operating Company, d/b/a Edgewater Hospital and Medical Center, Inc. an Illinois not for profit corporation will own and operate a general acute-care hospital licensed for 335 beds located in Chicago, Illinois. Northside is exempt from federal income taxation pursuant to Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as an organization described in Section 501(c)(3) of the Code by virtue of its inclusion in a group exemption extended to Permian Health Care Inc. ("Permian"), a Colorado nonprofit corporation and its subordinates, including Northside. Northside is not a private foundation as defined in Section 509(a) of the Code.

<u>Cash and Cash Equivalents</u>

Northside considers all marketable short-term securities, not otherwise restricted, having an original maturity of 90 days or less to be cash equivalents.

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

1. Summary of Significant Forecast Assumptions and Accounting Policies (continued):

Property, Plant and Equipment

Property, plant and equipment is stated based on an allocation of an appraisal at fair market value on the date of acquisition. Additions subsequent to the acquisition are stated at cost. Upon sale or retirement, cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives for buildings is 30 years. The range of estimated useful lives for equipment and improvements is 3 to 20 years. Routine maintenance and repairs are charged against operations. Expenditures that materially change capacities or extend useful lives, are capitalized.

Goodwill and Intangibles

The cost of acquisition of Northside over the estimated fair value of the net assets acquired (goodwill) is amortized on a straight line basis over a period of 20 years.

Supplies Inventories

Supplies inventories are valued at the lower of cost or market, using the first-in, first-out method.

Deferred Financing Costs

Costs incurred with the issuance of the Illinois Health Facilities Authority Revenue Bonds ("the Bonds") are amortized over the terms of the Bonds using the interest method.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. A significant portion of Northside's revenue from patient services are derived from the Medicare, Medicaid and Blue Cross programs. Payments under these programs are based on specific amounts per case, a contracted price, or costs, as defined, of rendering services to program beneficiaries. Northside provides contractual allowances on a current basis for the difference between charges for services rendered and the expected payments under these programs. Contractual allowances are netted against gross patient service revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

1. Summary of Significant Forecast Assumptions and Accounting Policies (continued):

Charity Care

Northside provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. These amounts are excluded from "Patient care revenues, net." Charity care provided at established rates for the five and one half months ending December 31, 1994 and during the fiscal years ended 1995 through 1998 are forecasted as follows (dollars in thousands):

1994 (5 Months)	$1,814
1995	$4,420
1996	$4,684
1997	$4,962
1998	$5,254

2. General:

Update to Previously Issued Forecast:

This forecast ("Current Forecast") has been updated from the one previously issued dated December 21, 1993 ("Previous Forecast"). Significant changes are highlighted as follows:

A. Sources of Funds:

	(Dollars in Thousands)	
	Current Forecast	Previous Forecast
Series 1994-A Bonds	$41,000	$45,000
Subordinated Note	4,000	0
Total Sources	$45,000	$45,000
Uses of Funds:		
Purchase of Medical Center	$35,100	$35,000
Debt Service Reserve Fund	4,100	4,500
Deposit to the Project Fund	2,930	2,000
Deposit to the Working Capital Fund	2,050	2,600
Costs of Issuance	820	900
Total Uses	$45,000	$45,000
Interest rate for Series A:	9.25%	8.0%
Interest rate for Note:	10.0%	--
Note Term:	10 years	--

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

2. General (continued):

The current forecast assumes the subordinated note has an interest rate of 10.0%. Interest is paid semi-annually over 10 years as long as the debt service coverage ratio does not fall below 1.5 times or days cash on hand does not fall below 20 days through 12/31/96 or 30 days after 12/31/96. Principal is due in 10 years from issue date.

Management has agreed to pay the cost of assets purchased by the previous owner between the date of appraisal, June 30, 1993, and the purchase date. The cost is estimated to be $1,100,000 (instead of $1,000,000 in the previously issued forecast) which will be paid from bond funds as an addition to the negotiated purchase price of $34,000,000.

B. Effective Date

An effective date of January 1, 1993 was assumed in the previously issued forecast. These forecasted financial statements assume an effective date of August 1, 1994.

C. Self-Insurance

Self insurance funds by board designation have been reclassed in this forecast to operating cash by $1 million in 1997 and $2 million in 1998 from amounts reflected in the previously issued forecasted balance sheets.

D. Capital Leases

Amounts owed under capital lease arrangements have been updated to more closely reflect the hospital's current commitments.

E. Key Indicators

These forecasted financial statements differ from those previously issued by incorporating the changes discussed above. These comparisons of cash, debt service coverage ratio and net income are as follows:

	1994	1995	1996	1997	1998
Cash:					
Current Forecast	$878	$3,089	$3,585	$5,644	$8,594
Previous Forecast	4,598	6,648	6,644	8,062	11,315
Debt Service Coverage Ratio:					
Current Forecast	2.04	1.96	1.78	1.74	1.77
Previous Forecast	2.41	2.26	2.11	2.02	2.00
Net Income:					
Current Forecast	$1,439	$2,984	$2,120	$1,681	$1,498
Previous Forecast	4,082	3,634	2,940	2,496	2,318

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

2. **General (continued):**

Financing

Tax exempt Bonds of $41.0 million and the subordinated note of $4.0 million will be issued to provide funds to (1) purchase of Edgewater Medical Center, (2) provide start-up working capital (3) deposit into construction funds $2.93 million to pay for the costs of the planned construction and renovation programs (4) deposit into the debt service reserve fund $4.1 million for principal and interest payments. The sources and uses of funds, exclusive of accrued interest to the date of issuance of the Series 1994 Bonds and exclusive of investment earnings, are as follows:

Sources of Funds:	(Dollars in Thousands)
Series 1994-A Bonds (a)	$41,000
Subordinated Note (b)	4,000
Total Sources	$45,000
Uses of Funds:	
Purchase of Medical Center	$35,100
Debt Service Reserve Fund (c)	4,100
Deposit to the Project Fund	2,930
Deposit to the Working Capital Fund (d)	2,050
Costs of Issuance (e)	820
Total Uses	$45,000

(a) The tax-exempt revenue term bond coupon rate is assumed to be 9.25% with a delivery date of 8/1/94. The principal is assumed to be amortized over 30 years beginning 7/1/96. As of the date of this study, no amount was estimated related to either a premium or discount on purchase of the bonds.

(b) The subordinated note has an interest rate of 10.0% over 10 years. The principal is payable at maturity. The interest is paid semi-annually as long as a debt service coverage ratio of 1.5 or above is maintained and days of cash on hand through 12/31/96 are above 20 days and above 30 days thereafter.

(c) The Debt Service Reserve Fund equals 10.0% of the bond costs and is assumed to earn interest at an annual rate of 8.0%.

(d) Management has agreed to pay the cost of assets purchased by the previous owner between the date of appraisal, June 30, 1993, and the purchase date. The cost is estimated to be $1,100,000 which will be paid from bond funds as an addition to the negotiated purchase price of $34,000,000.

(e) Cost of issuance is based on 2.0% of the bond costs.

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

3. **Forecast of Demand for Services:**

The forecast of demand for services at Northside is derived from analysis of historical and current utilization patterns in Northside's market area and from local area market studies. The preparation of the forecast is based on information gained from statistical reporting on utilization, surveys of other facilities, and management's knowledge of the market.

The historical and forecasted patient service volumes for the years ending December 31, 1992 through 1998 indicates the following:

- Acute care admissions are forecasted to increase from 5,289 in Fiscal Year 1992 to 7,305 in Fiscal Year 1998, as shown in the following table:

		Admissions
Historical	1992	5,289
Historical	1993	6,637
Forecast (5 Months)	1994	2,804
Forecast	1995	6,874
Forecast	1996	7,018
Forecast	1997	7,162
Forecast	1998	7,305

- Acute care average length of stay is based on management's continued focus on utilization review throughout the forecast period as shown in the following table:

		Average Length of Stay
Historical	1993	8.0
Forecast (5 Months)	1994	7.8
Forecast	1995	7.3
Forecast	1996	7.2
Forecast	1997	7.1
Forecast	1998	7.0

Length of stay in 1991 was comparable at 7.8 patient days. Length of stay in 1992 and 1993 (at 8.5 and 8.0 patient days respectively) reflected an increase in the case mix index as well as substantial changes in the medical staff complement, which resulted in a longer length of stay.

- Acute care patient days are expected to increase from 44,761 in Fiscal Year 1992 to 51,135 in Fiscal Year 1998, a compound annual growth rate of 2.2%. This represents a forecast of 80.0% occupancy of 175 available acute care beds by Fiscal Year 1998.

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

3. Forecast of Demand for Services (continued):

- Outpatient visits are forecasted to increase by a 3.3% compound annual growth rate from 1992 through 1998. Visits are based on a weighted average of three components: emergency room visits, ambulatory surgery visits and examination, procedures and treatment procedures.

4. Payor Mix:

Forecasted payor mix for patient days and admissions is relatively consistent with 1991, 1992 and is based on the 1993 mix of days and admissions. The Other category (noted below) is primarily Commercial insurance, HMO's and self pay. The payor mix is forecasted as follows:

	1994-1998	
	Patient Days	Admissions
Medicare	62.8%	50.6%
Medicaid	22.3	24.2
Other	12.4	21.5
Blue Cross	2.5	3.7
Total	100.0%	100.0%

Medicare and Medicaid patients accounted for 41.5% and 15.5% of outpatient visits based on 1993 data. The payor mix for outpatient services was based on eleven months actual data for 1993 and held constant through 1998.

5. Revenues from Patient Services:

Total gross revenues, as forecasted, reflect rate increases and changes in utilization. The rate of increase is structured to allow Northside to recover increases in operating and capital costs. Charges for acute services per day are expected to increase by 5.0% from 1994 through 1998. The resulting forecasted gross inpatient charges per acute care admission and patient day are as follows:

	Fiscal Year Ending December 31,	Charges per Admission	Charges per Patient Day
Historical	1991	$16,455	$2,100
Historical	1992	21,157	2,500
Historical	1993	20,944	2,605
Forecast (5 Months)	1994	21,336	2,735
Forecast	1995	20,967	2,872
Forecast	1996	21,714	3,016
Forecast	1997	22,482	3,167
Forecast	1998	23,274	3,325

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

5. Revenues from Patient Services (continued):

Outpatient charges per visit are expected to increase by 5.0% from 1994 through the forecast period. Outpatient charges per visit are as follows:

	Fiscal Year Ending December 31,	Outpatient Charges per Visit
Historical	1991	$529
Historical	1992	659
Historical	1993	762
Forecast (5 Months)	1994	800
Forecast	1995	840
Forecast	1996	882
Forecast	1997	926
Forecast	1998	972

Forecasted inpatient and outpatient gross revenues are outlined below by payor (dollars in thousands):

INPATIENT	1994 (5 Mo's)	1995	1996	1997	1998
Medicare	$35,998	$86,716	$91,687	$96,880	$102,294
Medicaid	12,500	30,111	31,837	33,641	35,521
Other	9,459	22,785	24,091	25,456	26,879
Blue Cross/Blue Shield	1,873	4,513	4,772	5,042	5,324
Total	59,830	144,125	152,387	161,019	170,018
OUTPATIENT					
Medicare	5,287	13,562	14,511	15,542	16,658
Medicaid	1,969	5,051	5,404	5,789	6,204
Other	4,684	12,016	12,858	13,772	14,760
Blue Cross/Blue Shield	801	2,056	2,200	2,356	2,526
Total	12,741	32,685	34,973	37,459	40,148
GROSS REVENUE	$72,571	$176,810	$187,360	$198,478	$210,166

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

6. **Deductions From Patient Revenue:**

Contractual Allowances and Charity Care

Certain patient service revenues are subject to contracts with various third-party payors, whereby the payment for services rendered may be different than Northside's established billing rate. Net revenue is the difference between gross revenue (including charity care) and deductions from revenue which consists of estimated contractual allowances, charity care and other allowances. The provision for contractual allowances relates primarily to Medicare, Medicaid, Blue Cross, and managed care programs. These adjustments represent the difference between billed charges and the amount received or receivable under the provisions of the third-party programs.

Medicare Inpatient Reimbursement

Payments for Northside's Medicare inpatient services are made under the prospective payment system (PPS). Under this system, as established by the Social Security Amendments of 1983, providers are reimbursed a predetermined payment rate related to the specific diagnosis (DRG) of the patient.

The Department of Health and Human Service's (HHS) Health Care Financing Administration (HCFA) annually publishes the PPS rates based on national standards for labor and nonlabor components adjusted by locality, as well as by federally set DRG weights. The forecasted PPS rates through September 30, 1998 are based on current federal legislation which includes disproportionate share, indirect medical education and direct graduate medical education reimbursement.

Medicare Capital Cost Reimbursement

Capital costs include items such as depreciation, interest, insurance, leases, and rentals. On August 30, 1991, HFCA published final regulations for a prospective payment system for inpatient hospital capital related costs (Capital PPS). The capital PPS payment method is effective for cost reporting periods beginning on or after October 1, 1991.

The regulations call for a ten year phase-in period, during which payment will be made under either the fully prospective payment method or the hold harmless payment method. The payment method is dependent upon a hospital's capital cost per discharge (hospital specific rate) for its fiscal year ended during calendar year 1990. The federal rate is a nationwide standard rate (currently $378.34 per discharge).

The fully prospective payment method is assumed for Northside because the hospital specific rate (HSR) is less than the federal rate. The blend in the first year is 90.0% HSR and 10.0% federal. The HSR component decreases by 10.0% and the federal component increases by 10.0% each year. The fully prospective payment is 100.0% of the federal rate by federal fiscal year 2001.

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

6. Deductions From Patient Revenue (continued):

Medicare Outpatient Reimbursement

Northside is reimbursed for outpatient services provided to Medicare beneficiaries. Medicare diagnostic outpatient services are reimbursed based on the lower of reasonable costs or charges. Payment for ambulatory surgery is based upon the lesser of reasonable cost or a blending of reasonable cost and prospectively determined rates. All other Medicare outpatient services are reimbursed based on the lower of reasonable cost or charges. Medicare outpatient reasonable costs are subject to a 5.8% operating cost reduction and a 10% capital reduction. Medicare outpatient reimbursement percentage is assumed to decrease at a rate of 1% per year throughout the forecast period.

Medicaid

Hospitals are reimbursed for inpatient services under a DRG system. Commencing April 1, 1994 Illinois Medicaid will use the Federal Medicare DRG payment rates that were in effect 90 days prior to the date of admission. The DRG grouping methodology and relative weights must also be updated 90 days after they are updated under the Federal Medicare program.

Outpatient services are reimbursed based upon a separate payment rate. Subsequent to October 1, 1993 payment for outpatient services will be increased by an adjustment payment equal to the outpatient payment rate multiplied by a hospital's "indigent volume factor" (calculated on the basis of a hospital's Medicaid inpatient utilization rate and its uncompensated care rate).

As part of the 1994 Illinois budget (effective 7/1/94 through 6/30/95), funding for the Medicaid program has been provided in part by a new hospital provider tax. The hospital provider tax equals 1.88% of the Medical Center's gross patient revenues less Medicare contractual allowances and is calculated on the basis of revenues for the previous state fiscal year (July 1, through June 30). This tax legislation includes a sunset provision that occurs on June 30, 1995. However, for purposes of this study, it is forecast through 1998 as it is anticipated that the tax will be required as long as the Medicaid program is reimbursed on a federal DRG basis.

Medicaid reimbursement is based on the Medicare PPS rate for three months of federal fiscal year 1993 and nine months of the federal fiscal year 1994. The reimbursement rate is computed similarly for 1995 through 1998 assuming an inflation rate of 2% per year. The case mix is held constant at .97 from 1994 through 1998. Allowable discharges are based on Northside's experience of 66% of the patients classified as Medicaid at admission. Medicaid outpatient reimbursement is 85% of outpatient revenue which is held constant from 1994 through 1998.

Blue Cross

The Blue Cross/Blue Shield reimbursement percentage is based on the 1993 rate and decreased by 1.0% per year through the forecast period.

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
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6. Deductions From Patient Revenue (continued):

Other

The reimbursement percentage of gross revenue decreases by 2.75% per year, from 1993 through 1997 and by 1.9% in 1998. This decrease reflects the increased anticipated penetration of managed care.

Provision for Administrative Adjustments and Uncollectible Accounts

Administrative adjustments and uncollectible accounts are forecasted based on 2.5% of gross revenue from 1994 through 1998. Charity care is assumed to be 2.5% of gross revenue from 1994 through 1998.

Total Deductions From Revenue

With the transition towards national rates for Medicare patients as well as the expectation that contract payment rates will grow at a slower rate than that of gross revenue, contractual allowances are forecasted to increase from the historic 60.0% of gross revenue in fiscal year 1992 to 67.7% in 1998.

7. Other Operating Revenue:

Other operating revenues consist primarily of cafeteria, telephone, parking rent, medical records, cafeteria, child care. Other operating revenues are forecasted to be relatively flat throughout the forecast period.

8. Operating Expenses:

Salaries and Benefits

Salaries and benefits are forecasted based on staffing levels and payroll rates currently in effect as of September 30, 1993 and are adjusted to reflect planned changes in staffing requirements and service offerings, increases in the volume of services provided, and effective annual increases in wage rates. Salaries and benefits expense is assumed to increase by 4.0% per year for the forecast period. Variable staffing was assumed to be 20% of total hours.

Forecasted staffing levels and salaries and benefits are as follows:

	Historical	Forecasted				
	1993	1994	1995	1996	1997	1998
Full-time Equivalent Employees (FTEs):	685	682	669	671	673	675
Annualized Salaries per FTE:	$28,395	$29,530	$30,712	$31,940	$33,218	$34,547

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

8. Operating Expenses (continued):

Purchased Services:

Purchased services consist primarily of housekeeping, maintenance, legal, audit and consulting services and physician contracts. Forecasted fees are based on the terms of contracts currently in effect adjusted for renegotiated contract provisions and expected price level changes. These costs increased by 27.1% from 1992 to 1993 and are forecasted to increase an average of 5.2% annually from annualized 1994 through 1998.

Supplies:

Supplies expense includes medical, non-medical, and food categories and is forecasted based on an analysis of the historical variability of supply expense to patient volumes and based on the estimated level of services to be provided during the forecast period. A supply inflation rate of 5.0% per year from 1994 through 1998 is forecasted in addition to a volume increase.

General overhead and maintenance:

General overhead consists of repairs, maintenance, utility costs, insurance and management fees. These expenses increased by 29.7% from 1992 to 1993 and are forecasted to increase by an average of 4.1% annually from annualized 1994 through 1998.

Other Expenses:

Other operating expenses include travel, education, subscriptions, and physician recruitment. These expenses are forecasted to increase at an average annual rate of 4.3% from 1992 through 1998.

9. Property, Plant and Equipment and Provision for Depreciation:

Depreciation is computed using the straight line method over the estimated useful lives of the assets. New equipment is depreciated over 3 to 20 years, improvements over 3 to 20 years, and building-related costs over 30 years. Annual depreciation expenses are forecasted as follows:

	(5 Months) 1994	Forecasted 1995	1996	1997	1998
	(Dollars in Thousands)				
On existing assets					
Purchase Appraisal	$644	$1,545	$1,545	$1,545	$1,545
Capital additions	53	382	502	622	742
Total	$697	$1,927	$2,047	$2,167	$2,287

NORTHSIDE OPERATING COMPANY
Summary of Significant Forecast Assumptions and Accounting Policies
For the Five Months Ending December 31, 1994 and
For the Four Years Ending December 31, 1995 through 1998

10. Principal and Interest Requirements:

Principal and interest requirements on the Illinois Health Facilities Authority Revenue Bonds are based on the forecasted debt service schedule:

	Series A	Note
Principal	$41,000,000	$4,000,000
Assumed interest rate	9.25%	10.0%
Final Maturity	2024	2004

The principal and interest requirements on forecasted outstanding debt through 1998 are:

	(5 Months)	Fiscal Years			
	1994	1995	1996	1997	1998
		(Dollars in Thousands)			
Capitalized Interest:	$(47)	$(158)			
Interest Cost:					
Series A	1,580	3,793	$3,780	$3,752	$3,721
Note	167	400	400	400	400
Leases	19	46	46	46	46
Total Interest Expense	1,719	4,081	4,226	4,198	4,167
Principal portion of debt service on:					
Series A	-0-	144	300	328	358
Note	-0-	-0-	-0-	-0-	-0-
Leases	159	292	292	182	53
Total Debt Service	$1,878	$4,517	$4,818	$4,708	$4,578

11. Interest Income:

Interest income on debt service reserves are stated as operating revenues and is assumed to have an interest rate of 8.0% per annum. Interest on excess cash and cash equivalents and investments is recorded in non-operating revenue and is assumed to have an interest rate of 2.5% per annum.

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Summary of Significant Forecast Assumptions and Accounting Policies
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12. Current Assets and Current Liabilities:

Accounts receivable (net), inventories and other current assets, accounts payable and accrued liabilities are forecasted based on historical experience and an estimate of future changes. The assumptions used for estimating the major items during the forecast period are summarized below:

- Days of net revenue in accounts receivable are forecasted to be 75 days for 1994 through 1998.
- Inventory and prepaid days are both forecasted to be 53 days for 1994 through 1998.
- Accounts payable and accrued expense days are forecasted based on the current number of days in operating expenses and salaries and are forecasted to be 87 and 21 days for 1994 through 1998.

METHODOLOGY FOR FORECASTING DEMAND FOR SERVICES

Northside Operating Company
Methodology for Forecasting Demand for Services

The forecast of utilization at the Medical Center has been prepared with input from management on goals and assumptions, and reviewed for reasonableness based on market area and competitive considerations. The utilization forecast was prepared as a basis for preparing forecasted financial statements. Historical inpatient and outpatient utilization and corresponding forecasts are summarized below, together with comments on salient points and forecasting factors.

HISTORICAL UTILIZATION

Historical Hospital Utilization

	1988	1989	1990	1991	1992	1993
Available Beds	178	152	137	137	162	175
Admissions[a]	6,528	6,361	5,139	5,371	5,289	6,637
Patient Days[a]	41,219	42,277	37,249	42,083	44,761	53,352
Average Length of Stay	6.31	6.65	7.28	7.84	8.46	8.04
Percent Occupancy	63.4%	76.2%	74.9%	84.2%	75.7%	83.5%
Emergency Room Visits	[b]	[b]	14,763	13,940	12,521	13,352
Outpatient Volume[c]	[b]	[b]	91,064	99,652	97,640	107,372
Ambulatory Surgery Cases	[b]	[b]	1,929	2,078	2,170	2,141

[a] Obstetrics included for 1988, 1989, and 1990.
[b] Comparable data not available due to change in information system.
[c] Based on ancillary service examinations, procedures and treatments.
Source: Hospital Records.

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Inpatient Admissions

The Medical Center underwent a change of ownership and management in January, 1989 under conditions of financial distress. The decline in admissions in 1990 reflects actions taken to improve financial conditions and provide a basis for sustained growth. Among the actions taken, which reduced admissions, were the discontinuation of obstetrics and the discontinuation of managed care contracts with unfavorable terms. In 1991, admissions rebounded and stabilized in 1992. Total 1993 admissions increased substantially.

The increases in admissions since 1990 reflect actions taken by the new management to improve the Medical Center's market share and competitive position. A summary of the program initiatives undertaken by the Medical Center's management to improve the Medical Center's position include the following, which are described in more detail in the body of the analysis.

- Improved physician recruitment and retention.
- Senior citizen programs, including a Senior Program established in concert with the Chicago Housing Authority.
- Renewed emphasis on managed care contracting.
- Target marketing to the Hispanic community which comprises a significant portion of the market area population.
- Industrial medicine and group practice development in the northwest suburbs.
- Physician group networking, both IPA and group practice.
- Expansion of the Medical Center's residency program to include other specialties.

These initiatives are further supported by a Newcomer's Program and physician referral program, a range of patient transportation services, and housing accommodations for outpatients and family members of inpatients.

Patient Days

The average length of stay (ALOS) of patients at the Hospital increased from 6.31 in 1988 to 8.46 in 1992. In 1993, the rate decreased to 8.04. The increases in ALOS during the 1988 to 1992 period are attributable, in part, to intentional increases in patient acuity. Edgewater Medical Center has targeted a higher acuity patient base. In addition, in 1990 Edgewater Medical Center discontinued its obstetrics program, which has a shorter ALOS.

Outpatient Utilization

In the 1990 to 1992 period, for which there are comparable data available on ancillary services, ambulatory surgery cases increased by 12.5 percent, and outpatient utilization of ancillary services increased by 7.2 percent. Emergency room visits declined by 15.2 percent during this same period.

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UTILIZATION FORECAST

As support for the forecasts presented below, analyses have been prepared giving consideration to the principal factors affecting the Medical Center's utilization, including:

- Medical Center market area identification and description.
- Market area population trends, demographics, and economic characteristics.
- Area hospitals and competitive facilities.
- Projected market area admissions.
- Medical Center market share of area admissions.
- Medical Center average length of stay.
- Medical staff composition.
- Medical staff recruitment and retention.
- Other program initiatives described above.

Hospital Utilization Forecast

	1994[c]	1995	1996	1997	1998
Available Beds[a]	175	175	175	175	175
Admissions	6,730	6,874	7,018	7,162	7,305
Patient Days	52,494	50,180	50,530	50,850	51,135
Average Length of Stay	7.80	7.30	7.20	7.10	7.00
Percent Occupancy	82.2%	78.6%	79.1%	79.6%	80.1%
Emergency Room Visits	12,578	12,162	11,762	11,376	11,000
Outpatient Volume[b]	109,026	112,618	115,469	118,481	121,623
Ambulatory Surgery Cases	2,465	2,536	2,611	2,690	2,772

(a) The Hospital has 335 licensed beds, and can increase the number of available beds to 200 without additional construction cost.
(b) Based on visits and ancillary service workload volume.
(c) Annualized forecasted data.

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Methodology for Forecasting Demand for Services

Inpatient Admissions

The Medical/Surgical (including Critical Care) use rate (admissions per 1,000 population) declined during the 1987 to 1991 period, and it is projected to continue to decline at a similar rate thorough 1998. With allowance for population growth, this results in a modest 1.3 percent growth in area admissions during the forecast period. The large increase in 1993 admissions, indicates a market share increase on the order of 2 percent. In the forecast period, the projected increase in market share over the 5-year period is 1.3 percent. The program initiatives described above are expected to continue to have long-term benefits for the Medical Center as they continue in the future.

Patient Days

Average length of stay (ALOS) is projected to decline to 7.00 by 1998, down from 8.04 days in 1993. Expected sources of decline in ALOS are an increase of commercial insurance and managed care contract patients, and earlier transfers of "outlier" Medicare patients to the appropriate sub-acute setting.

Outpatient Utilization

Outpatient utilization of the Hospital's ancillary services is projected to increase somewhat faster in the 1993 to 1998 period (13.3 percent) than inpatient utilization, as is ambulatory surgery. These increases reflect both Hospital and industry trends toward greater outpatient utilization of services. Emergency room visits are projected to decline by -15.4 percent, and ambulatory surgery is projected to increase by 15.6 percent.

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IMPACTS OF HEALTH CARE REFORM

During October 1993, President Clinton submitted to Congress a draft of the President's Health Reform Proposal entitled the "Health Security Act of 1993" (the "Act"). Alternative legislation has been introduced by various members of Congress. The objective of the Act and other proposed legislation is to substantially alter the nation's health care delivery system. The effect of the Act or other legislation can not be anticipated. Accordingly, no estimate has been made of the proposed legislation and the potential effects on the Medical Center's operations have not been incorporated in the demand for services.

Northside Operating Company
Methodology for Forecasting Demand for Services

ANALYSIS OF DEMAND AND UTILIZATION

METHODOLOGY

The analysis of expected future demand for services provided at the Medical Center was prepared to provide a basis for financial statement forecasts. This assessment of future demand and utilization includes the following:

- Identification of the geographical market area from which the Medical Center obtains a majority of its patients.
- Review of published statistics relating to the characteristics of this area and historical and forecasted population trends.
- Market share and competitive analysis of other hospitals located in the market area.
- Review of the Medical Center's historical operations, anticipated programs, and future operating plan, and those of its competitors.

IDENTIFICATION OF THE GEOGRAPHICAL MARKET AREA

The Medical Center is located near Lake Michigan in North Chicago, about 10 miles from the downtown "Loop" and midway between the Loop and Evanston, Illinois.

An analysis of the Medical Center's 1991 patient discharges and market share by zip code was prepared as the basis for identifying it's market area. The market area identified from this analysis is indicated below and in the market area map on page 24.

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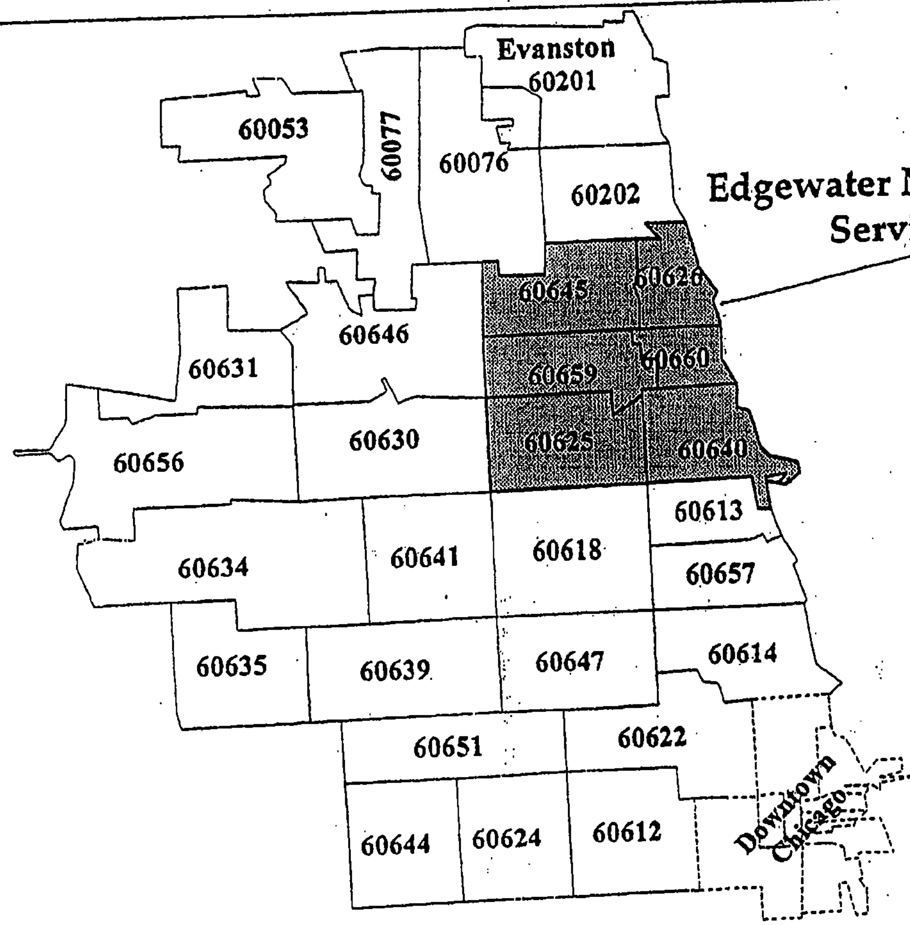
1991 Patient Origin Distribution
Analysis by Zip Code

Zip Code	Discharges	Percent
60625	242	4.5%
60626	800	14.9%
60640	719	13.4%
60645	349	6.5%
60659	216	4.0%
60060	1,046	19.5%
Total Market Area	**3,372**	**62.8%**
Other Zip Codes	1,998	37.2%
Total Hospital	**5,370**	**100.0%**

Source: Illinois Health Care Cost Containment Council, Patient Origin Data Set and Hospital Records.

Zip codes included in the market area are those which provided at least 4 percent of the Medical Center's patients, and in which the Medical Center's market share was also at least 4 percent. The high percentage of patients from "Other Zip Codes" reflects the Medical Center's outreach into other communities, as well as the diverse travel patterns of the metropolitan area.

MARKET AREA ZIP CODE MAP



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The Medical Center's market area identified corresponds generally to the following City of Chicago Department of Planning and Development community areas:

Chicago Planning Department Community Areas in the Medical Center's Market Area	
Community Area Number	**Name**
#1	Rogers Park
#2	West Ridge
#3	Uptown
#4	Lincoln Square
#13	North Park
#14	Albany Park
#77	Edgewater

The Medical Center's market area and the above community areas are bounded approximately by the following major streets: Howard Street on the North, Crawford/ Pulaski Road on the West, Montrose Avenue on the South, and Lake Michigan on the East.

Area Population and Growth

Population data for the market analysis and the utilization/demand projections are based on those published by the U.S. Bureau of the Census, Claritas/National Planning Corporation, and the City of Chicago Department of Planning and Development. The following are historical and projected population and growth statistics for the Medical Center's market area.

Northside Operating Company
Methodology for Forecasting Demand for Services

Market Area Population and Growth			
	1993	**1998**	**Pct. Change 1993-1998**
Market Area	349,274	365,338	4.6%
Illinois	11,647,420	11,994,172	3.0%
Cook County	5,155,790	5,233,935	1.5%
Source: Claritas/National Planning Data Corporation.			

Forecasted population is based on the projected growth during the 1992-1997 period provided by Claritas/National Planning Data Corporation. This growth trend is extended through 1998, and interpolated for 1993, 1994, 1995, and 1996, based on the straight line method.

The data show that the Medical Center's market area is growing faster than both the State of Illinois and Cook County. Market area population is projected to increase 4.6 percent between 1993 and 1998, compared to 3.0 percent for the State and 1.5 percent for Cook County.

Age Distribution and Growth

The Medical Center's market area population is slightly older than Cook County; the percentage of persons 65 and over is greater at 13.7 percent vs. 12.6 percent for the County, and the percentage under 15 years is smaller at 19.0 percent vs. 21.3 percent for the County.

Population Age Distribution and Growth

	Market Area				Cook County	
	1993	1998	Pct. Dist. 1993	Pct. Change 1993-1998	Pct. Dist. 1993	Pct. Change 1993-1998
Total	349,274	365,338	100.0%	4.6%	100.0%	1.5%
Under 15	66,345	68,954	19.0%	3.9%	21.3%	0.1%
15 - 44	175,957	175,538	50.4%	-0.2%	46.6%	-2.7%
45 - 64	59,150	68,140	16.9%	15.2%	19.4%	11.2%
65 & Over	47,822	52,706	13.7%	10.2%	12.6%	4.5%
Females 15 - 44	83,931	83,733	24.0%	-0.2%	23.5%	-2.9%

Source: Claritas/National Planning Data Corporation.

The fastest growing age group in the market area is the 45-64 age group, which is projected to grow 15.2 percent, compared to the overall market area growth of 4.6 percent. Projected growth of the 65+ age group in the market area is also more than twice as great as the growth for this age group in the market area (10.2 percent vs. 4.6 percent for the market area).

The 15-44 age group is projected to decrease by -0.2 percent by 1998, reflecting the aging of the "Baby Boomers". Similarly, the childbearing female age group (15-44) is also projected to decline by -0.2 percent in size.

Northside Operating Company
Methodology for Forecasting Demand for Services

Household Size and Income

Household size in the market area is lower than household size for City of Chicago: 2.43 persons for the market area compared to 2.73 persons for the City.

The distribution of income by income groups is comparable for the market area and the City. However, the mean income of the market area is higher: $31,947 for the market area compared to $26,301 for the City.

Household Size and Income Distribution

	Market Area	City of Chicago
Household Size	2.43	2.73
Household Income:		
0 - $14,999	28.8%	29.7%
$15,000 - $24,999	20.1%	18.0%
$25,000 - $34,999	16.5%	15.4%
$35,000 - $49,999	16.0%	16.6%
$50,000 - $74,999	12.2%	12.8%
$75,000 or more	6.4%	7.5%
Total	**100.0%**	**100.0%**
Mean Income	**$31,947**	**$26,301**

Source: Chicago Department of Planning and Development, December, 1992.

Education

Educational attainment in the market area is higher than the City as a whole. Approximately 10 percent more of the area residents have an Associate degree, or higher, than do the residents of the City (32.1 percent vs. 22.7 percent).

Educational Attainment (Persons 18+ Years)

	Market Area		City of Chicago	
	Pct.	Cum. Pct.	Pct.	Cum. Pct.
Graduate or Professional Degree	9.3%	9.3%	6.5%	6.5%
Bachelors Degree	17.5%	26.8%	11.6%	18.1%
Associate Degree	5.3%	32.1%	4.5%	22.7%
Some College, No Degree	20.2%	52.3%	18.9%	41.5%
High School Diploma	22.0%	74.3%	24.9%	66.4%
High School, No Diploma	13.7%	88.0%	19.8%	86.2%
Elementary	12.0%	100.0%	13.8%	100.0%
Total	**100.0%**		**100.0%**	

Source: Chicago City Department of Planning and Development, December, 1992.

Ethnic and Racial Composition

Based on the 1990 Census, the market area population has higher percentages than the City of Chicago for White (53.1 percent vs. 37.9 percent) and for Asian (19.4 percent vs. 3.5 percent). The African American percentage in the market area (14.2 percent) is only about one-third as large as for the Chicago (38.6 percent), and the Hispanic percentage in the market area (13.0 percent) is somewhat lower than the City (19.6 percent).

1990 Ethnic Distribution

	Market Area		Chicago	
	Population	Pct. Dist	Population	Pct. Dist
White[a]	180,067	53.1%	1,056,048	37.9%
Hispanic Origin	44,251	13.0%	545,852	19.6%
Asian	65,759	19.4%	98,777	3.6%
African American	48,277	14.2%	1,074,471	38.6%
Other Race	1,022	.3%	3,581	0.1%
Native American	(b)	0.0%	4,997	0.2%
Total	339,376	100.0%	2,783,726	100.0%

(a) Excludes Hispanic Origin.
(b) Included in Other Race.
Source: U.S. Bureau of the Census.

ECONOMIC DESCRIPTION OF THE MARKET AREA

Economic characteristics of the market area provide indicators about the Medical Center's external environment, which may influence future utilization and demand for its services.

According to the Consensus of Member Economists of the Chicagoland Chamber of Commerce, the recession in Chicago bottomed-out early in 1992, and a recovery is underway. Although the recovery "has been somewhat slower by historical standards", the Consensus foresees a 3.1 percent growth rate for 1993, coupled with stable inflation and interest rates. The major "positives" identified for Chicagoland recovery are:

- Small reliance on defense spending.
- Export benefits from NAFTA.
- More jobs in telecommunications.
- Stable financial institutions.
- Solid transportation system.

Employment

Military employment, at 0.1 percent, plays a minor role in both the Medical Center's market area and Chicago. The 1990 unemployment rate in the market area, at 7.8 percent, compares favorably to the overall Chicago unemployment rate of 11.3 percent. With the ongoing recovery, these unemployment rates would be expected to continue to decrease.

Labor force participation is higher in the market area, at 53.2 percent, is more than 10 percent higher than the 43.0 percent participation for Chicago.

1990 Labor Force Status: Persons 16 Years and Older		
	Market Area	City of Chicago
Total Labor Force	100.0%	100.0%
In Armed Services	0.1%	0.1%
Civilian:	99.9%	99.9%
Employed	92.2%	88.7%
Unemployed	7.8%	11.3%
In Labor Force	53.2%	43.0%
Source: Chicago Department of Planning and Development, December, 1992.		

Occupations

The market area has a higher percentage of persons employed in managerial and professional occupations, at 29.3 percent, to Chicago's 24.9 percent. There is also a higher percentage of persons in the Technical, Sales, and Administrative Support occupations (34.1 percent) than Chicago (33.0 percent). The percentage of persons in Service Occupations, Crafts and Repairs, and Operators and Laborers is lower in the market area than in Chicago.

Occupation: Employed Persons 16 Years and Older		
	Market Area	Chicago
Managerial and Professional	29.3%	24.9%
Technical, Sales, Admin. Support	34.0%	33.0%
Service Occupations	12.9%	15.1%
Farming, Forestry, Fishing	0.6%	0.5%
Prec. Product, Craft, Repair	8.2%	8.9%
Operators, Fabricators, Laborers	15.0%	17.6%
Total	100.0%	100.0%
Source: Chicago Department of Planning and Development, December, 1992.		

Employment by Industry

The general composition of employment by industry is similar for the market area and the City of Chicago. Service Industries provide the greatest percentage of employment in the market area (39.0 percent) followed by Retail Trade (17.1 percent), and Manufacturing (17.1 percent).

Employment by Industry:
Employed Persons 16 Years and Older

Industry	Market Area	Chicago
Agriculture, Forestry, and Fisheries	0.5%	0.4%
Mining	0.0%	0.1%
Construction	3.7%	3.8%
Manufacturing	17.1%	18.7%
Transportation	4.3%	6.2%
Communications and Other Public Utilities	1.9%	2.3%
Wholesale Trade	4.4%	4.5%
Retail Trade	17.1%	15.0%
Finance, Insurance, and Real Estate	9.0%	9.2%
Services	39.0%	34.8%
Public Administration	3.0%	5.0%
Total	**100.0%**	**100.0%**

Source: Chicago Department of Planning and Development.

AREA UTILIZATION

Area Admissions

Total inpatient admissions from the market area increased by 1.1 percent between 1987 and 1991, going from 42,893 in 1987 to 43,367 in 1991. There was a major single-year decline in 1988. Since reported admissions rebounded in 1989, it is likely that the decline is a result of under-reporting compliance by hospitals in 1988, rather than a fundamental change in admission patterns.

Admissions by Service for Area Residents: 1987-1991

	1987	1988	1989	1990	1991
Medical/Surgical	25,007	23,400	24,537	25,397	25,283
Critical Care	5,276	4,937	5,177	5,358	5,334
Subtotal	**30,283**	**28,337**	**29,714**	**30,755**	**30,617**
Pediatric	3,474	3,251	3,409	3,529	3,513
OB/GYN	5,233	4,897	5,135	5,315	5,291
Psychiatric	1,458	1,365	1,431	1,481	1,474
All Other	2,445	2,288	2,399	2,483	2,472
Total Admissions	**42,893**	**40,138**	**42,088**	**43,563**	**43,367**

Source: Illinois Health Care Cost Containment Council and Metropolitan Chicago Healthcare Council.

Since the Illinois Health Commission Patient Origin Data Set only provides total data, 1992 data from for Illinois State Plan Distinct 1, North Chicago, was used to estimate the distribution by service. The data source for the distribution data is Utilization of Short-Term General and Specialty Hospitals in Metropolitan Chicago for the Year 1992, published by the Metropolitan Chicago Healthcare Council.

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Admissions Per 1,000 Population

The use rate of admissions per 1,000 population in the market area declined during the 1987-1991 period. This decline reflects a national trend in health care in the United States. The rate of admissions per 1,000 nationwide declined -3.4 percent between 1987 and 1990, going from 131.4 in 1987 to 126.9 in 1990. (Source: California Association of Hospitals and Health Systems, 1991-1992, Hospital Fact Book.)

The slower decline in admissions per 1,000 for Medical/Surgical services reflects the slower growth of the 15+ years of age population group, who use the medical/surgical services.

Area Population and Admissions Per 1,000

Year	Population		Admissions Per 1,000	
	Total	15+ Years	Total	Medical/ Surgical[a]
1987	329,349	269,468	130.5	112.6
1988	332,691	271,622	120.6	104.3
1989	336,034	273,776	125.2	108.5
1990	339,376	275,930	128.4	111.5
1991	342,719	278,084	126.5	110.1
Pct. Change: 1987-1991	4.1%	3.2%	-3.0%	-2.2%

[a] Medical/Surgical admission rate base on 15+ age population, and includes Critical Care.

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Methodology for Forecasting Demand for Services

Area Admissions by Payor Source

Payor mix distribution for the market area show the following trends:

- Commercial insurance accounts for the largest percentage (35.1 percent) of all payors, but has declined by 4.2 percent during the 1987-1991 period.
- The decline in commercial insurance is offset by the increase in the percentage of HMO's (4.4 percent), which reflects the national trend toward HMO membership and managed care.
- Medicaid has increased by 3.7 percent, while the Self Pay category has declined by 2.0 percent. This probably reflects increased coverage by Medicaid for persons who where previously uninsured.

Market Area Distribution of Patients by Payor Source[a]

	1987	1988	1989	1990	1991	% Change 1987-1991
Medicare	34.5%	33.2%	33.9%	33.3%	34.0%	-0.5%
Medicaid	10.1%	11.1%	11.7%	12.7%	13.8%	3.7%
Commercial Insurance	39.3%	38.8%	36.0%	36.0%	35.1%	-4.2%
HMO	5.2%	9.1%	9.4%	9.4%	9.6%	4.4%
Self Administrative Plan	0.9%	0.9%	2.2%	2.5%	2.4%	1.5%
Self Pay	5.0%	4.7%	5.1%	3.7%	3.0%	-2.0%
Other	5.0%	2.2%	1.7%	2.4%	2.1%	-2.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	

(a) Market area distribution based on 10 hospitals with a total of 72 percent of the area market share.
Source: Illinois Health Care Cost Containment Council, Quarterly Reports.

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Methodology for Forecasting Demand for Services

Comparisons of market area and City of Chicago payor mix show the following:

- The market area has a larger percentage of Medicare than Chicago, reflecting a higher percentage of older persons.

- The percentage of both Medicaid and Self Pay are lower in the market area than Chicago.

- The percentage of commercial insurance is also substantially higher in the market area than for the Chicago.

Comparison of Market Area and Chicago Payor Source Distribution

	1991 Percent Distribution		Percent Change 1987-1991	
	Chicago	Market Area	Chicago	Market Area
Medicare	25.2%	34.0%	2.0%	-0.5%
Medicaid	31.5%	13.8%	4.7%	3.7%
Commercial Insurance	24.6%	35.1%	-10.5%	-4.2%
HMO	7.0%	9.6%	3.2%	4.4%
Self Adm Plan	2.0%	2.4%	0.9%	1.5%
Self Pay	6.5%	3.0%	-0.9%	-2.0%
Other	3.2%	2.1%	0.6%	-2.9%
Total	**100.0%**	**100.0%**		

Source: Illinois Health Care Cost Containment Council, Quarterly Reports.

COMPETITIVE ANALYSIS

Competitor Hospitals

Within the Medical Center's market area there are five other hospitals, as shown in the following table and the hospital location map. In addition, there are two hospitals in Evanston, Illinois, north of the market area, and two hospitals south of the market area which draw patients from the Medical Center's market area.

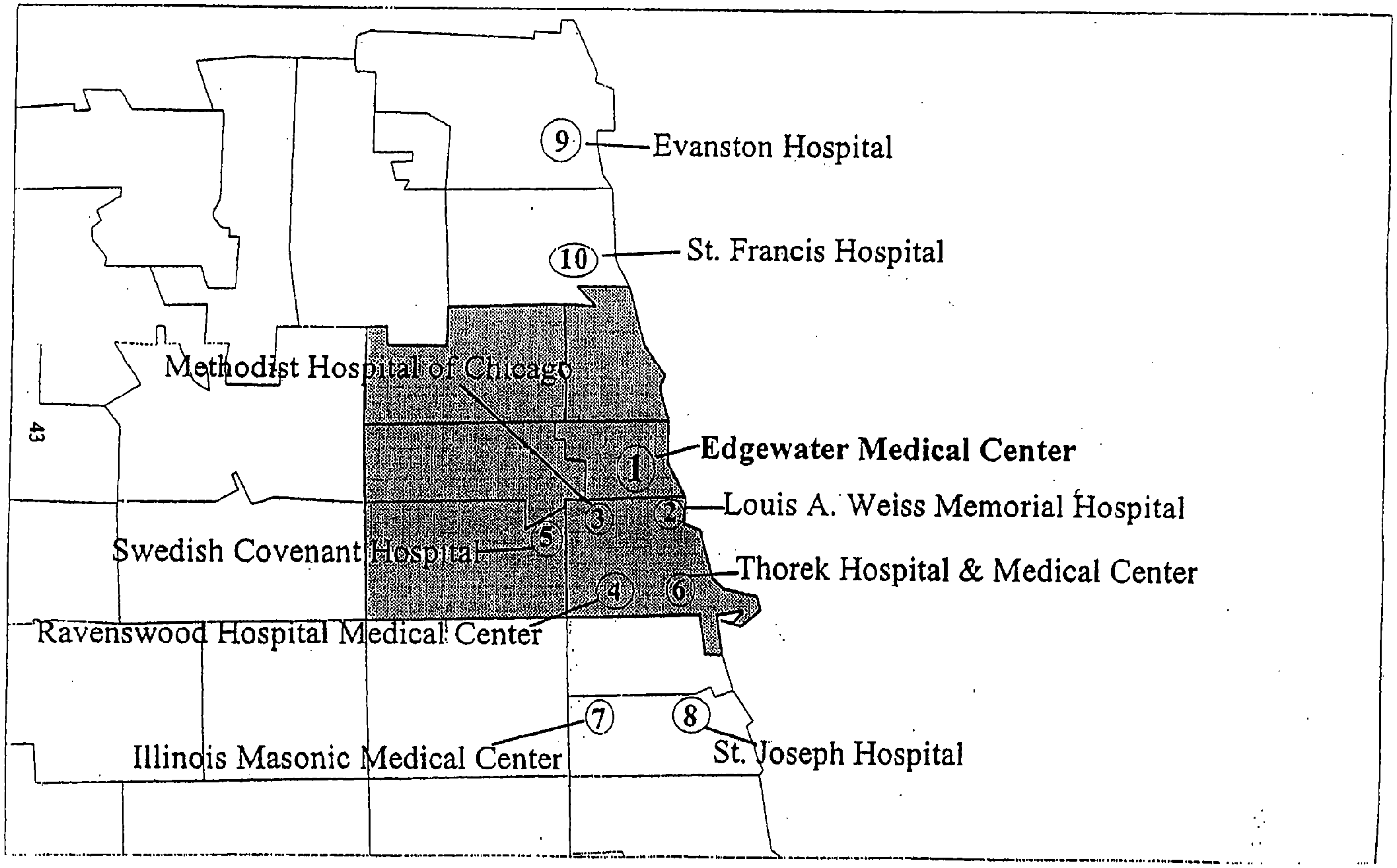
Competitor Hospital Beds and Utilization: 1991

	Hospital Beds[a]	Admissions	Average Census	Percent Occupancy
Market Area Hospitals:				
Edgewater Medical Center	165	5,405	116	70.3%
Louis A. Weiss Memorial Hospital	232	8,406	175	75.4%
Methodist Hospital of Chicago	146	3,187	71	48.6%
Ravenswood Hospital Med. Ctr.	295	10,504	225	76.3%
Swedish Covenant Hospital	252	9,248	190	75.4%
Thorek Hospital and Med. Ctr.	170	4,596	86	50.6%
Area Hospital Total	**1,260**	**41,346**	**863**	**68.5%**
Other Chicago Hospitals:				
Illinois Masonic Medical Center	365	16,111	273	74.8%
St. Joseph Hospital	425	11,976	245	57.6%
Evanston Hospitals:				
Evanston Hospital	549	23,597	447	81.4%
St. Francis Hospital	436	16,109	323	74.1%

(a) Beds regularly set up and staffed for use.
Source: American Hospital Association, 1992 Guide Issue to the Health Care Field.

Note: These figures may vary from hospital records due to differences in data gathering techniques.

HOSPITAL LOCATION MAP



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In terms of market share in the Medical Center's market area, the five principal competing hospitals are:

1. St. Francis Hospital (Evanston)
2. Swedish Covenant Hospital
3. Ravenswood Hospital Medical Center
4. Louis A. Weiss Memorial Hospital
5. Illinois Masonic Medical Center (Other Chicago area)

A table with a detailed list of services offered by the Medical Center and its principal competitors is shown below with the following categories:

- Inpatient Nursing Services
- Outpatient Services
- Diagnostic and Therapeutic Services
- Cardiac Services
- Rehabilitation Services
- Psychiatric Services
- Geriatric Services
- Health Promotion Services
- Aids-Related Services
- Perinatal/Gynecological Services
- Alcohol/Drug Abuse or Dependency Services
- Patient Support Services

The table shows that the Medical Center offers a competitive range of services overall. Its inpatient emphasis is on adult acute care (medical/surgical and critical care). The only two areas in which it is not at all active at present are perinatal (obstetric) and alcohol/drug abuse. The withdrawal from perinatal services was a deliberate choice for financial reasons in May, 1990; however, facilities exist to resume this service when it appears appropriate.

SUMMARY OF SERVICES AVAILABLE IN THE AREA

Facility Code		EDGEWATER MEDICAL CENTER	ST. FRANCIS HOSPITAL	SWEDISH COVENANT HOSPITAL	RAVENSWOOD HOSPITAL MEDICAL CENTER	LOUIS A. WEISS MEMORIAL HOSPITAL	ILLINOIS MASONIC MEDICAL CENTER
	Number of Beds -- Total Facility	165	436	292	333	232	675
	Number of Beds -- Hospital	165	436	252	295	232	365
	INPATIENT NURSING SERVICES						
8	Burn Care Unit						
30	Hemodialysis	✓	✓		✓	✓	✓
32	Hospice	✓	✓		✓		✓
33	Medical/Surgical or Other Intensive Care Unit	✓	✓	✓	✓	✓	✓
70	Organ/Tissue Transplant					✓	
40	Pediatric Acute Inpatient Services		✓	✓			✓
60	Skilled Nursing or Other Long-Term Care Unit			✓	✓	✓	✓
	OUTPATIENT SERVICES						
14	Emergency Department	✓	✓	✓	✓	✓	✓
64	Emergency Department Social Work Services		✓	✓	✓		✓
31	Home Health Services	✓	✓	✓	✓		✓
38	Occupational Health Services	✓	✓	✓	✓		
39	Organized Outpatient Services	✓	✓	✓	✓	✓	✓
63	Outpatient Social Work Services	✓	✓	✓	✓		✓
69	Outpatient Surgery Services	✓	✓	✓	✓	✓	✓
65	Sports Medicine Clinic/Services		✓	✓			
15	Trauma Center (Certified)		✓	✓			✓
	DIAGNOSTIC AND THERAPEUTIC SERVICES						
35	Blood Bank	✓	✓	✓	✓	✓	✓
13	Chronic Obstructive Pulmonary Disease Services	✓	✓	✓		✓	✓
53	CT Scanner	✓	✓	✓	✓	✓	✓
54	Diagnostic Radioisotope Facility	✓	✓	✓	✓		✓
16	Extracorporeal Shock-Wave Lithotripter (ESWL)						
34	Histopathology Laboratory	✓	✓	✓	✓	✓	✓
55	Magnetic Resonance Imaging (MRI)						✓
49	Megavoltage Radiation Therapy	✓	✓	✓		✓	✓
71	Orthopedic Surgery	✓	✓	✓		✓	✓
50	Radioactive Implants	✓	✓		✓	✓	✓
61	Single Photon Emission Computerized Tomography		✓	✓	✓		
51	Therapeutic Radioisotope Facility	✓	✓		✓	✓	✓
56	Ultrasound	✓	✓	✓	✓	✓	✓
52	X-ray Radiation Therapy	✓	✓	✓		✓	✓

SUMMARY OF SERVICES AVAILABLE IN THE AREA (continued)

Facility Code		EDGEWATER MEDICAL CENTER	ST. FRANCIS HOSPITAL	SWEDISH COVENANT HOSPITAL	RAVENSWOOD HOSPITAL MEDICAL CENTER	LOUIS A. WEISS MEMORIAL HOSPITAL	ILLINOIS MASONIC MEDICAL CENTER
	Number of Beds -- Total Facility	165	436	292	333	232	675
	Number of Beds -- Hospital	165	436	252	295	232	365
	CARDIAC SERVICES						
12	Angioplasty	✓	✓		✓	✓	✓
9	Cardiac Catheterization Laboratory	✓	✓	✓	✓	✓	✓
11	Cardiac Intensive Care Unit		✓		✓		✓
79	Cardiac Rehabilitation Program	✓	✓	✓	✓	✓	✓
80	Non-Invasive Cardiac Assessment Services	✓	✓	✓	✓	✓	✓
10	Open Heart Surgery	✓	✓			✓	✓
	REHABILITATION SERVICES						
72	Occupational Therapy Services	✓	✓	✓	✓	✓	✓
73	Physical Therapy Services	✓	✓	✓	✓	✓	✓
74	Recreational Therapy Services			✓	✓		✓
58	Rehabilitation Outpatient Unit	✓	✓	✓	✓		✓
57	Rehabilitation Inpatient Unit			✓	✓		
75	Respiratory Therapy Services	✓	✓	✓	✓	✓	✓
76	Speech Therapy Services	✓	✓	✓	✓	✓	✓
	PSYCHIATRIC SERVICES						
47	Psychiatric Outpatient Services		✓	✓	✓		✓
45	Psychiatric Geriatric Services		✓	✓	✓		
42	Psychiatric Consultation/Liaison Services	✓	✓	✓	✓		✓
46	Psychiatric Inpatient Unit		✓	✓	✓		✓
43	Psychiatric Education Services		✓	✓	✓		✓
48	Psychiatric Partial Hospitalization Program		✓		✓		
41	Psychiatric Child/Adolescent Services				✓		
44	Psychiatric Emergency Services	✓	✓	✓	✓		✓
	GERIATRIC SERVICES						
19	Adult Day Care Program						✓
20	Alzheimer's Diagnostic/Assessment Services						
6	Arthritis Treatment Center		✓		✓		
21	Comprehensive Geriatric Assessment						
22	Emergency Response (Geriatric)		✓	✓			
24	Geriatric Clinics	✓					✓

SUMMARY OF SERVICES
AVAILABLE IN THE AREA
(continued)

Facility Code		EDGEWATER MEDICAL CENTER	ST. FRANCIS HOSPITAL	SWEDISH COVENANT HOSPITAL	RAVENSWOOD HOSPITAL MEDICAL CENTER	LOUIS A. WEISS MEMORIAL HOSPITAL	ILLINOIS MASONIC MEDICAL CENTER
	Number of Beds – Total Facility	165	436	292	333	232	675
	Number of Beds – Hospital	165	436	252	295	232	365
	GERIATRIC SERVICES (continued)						
23	Geriatric Acute Care Unit						
25	Respite Care						
26	Senior Membership Program	✓			✓	✓	
	HEALTH PROMOTION SERVICES						
28	Community Health Promotion	✓	✓	✓	✓	✓	✓
17	Fitness Center			✓			
29	Worksite Health Promotion	✓	✓	✓	✓		
	AIDS-RELATED SERVICES						
1	General Inpatient Care for AIDS/ARC	✓	✓	✓	✓	✓	✓
2	AIDS/ARC Unit					✓	✓
3	Specialized Outpatient Program for AIDS/ARC						✓
	PERINATAL/GYNECOLOGICAL SERVICES						
7	Birthing Room/LDRP Room		✓	✓	✓	✓	✓
18	Genetic Counseling/Screening Services				✓		✓
36	Neonatal Intensive Care Unit						✓
37	Obstetrics Unit		✓	✓	✓	✓	✓
59	Reproductive Health Services	✓		✓	✓		✓
77	Women's Health Center/Services		✓				✓
	ALCOHOL/DRUG ABUSE OR DEPENDENCY SERVICES						
5	Alcohol/Drug Abuse or Dependency Outpt. Unit		✓				✓
4	Alcohol/Drug Abuse or Dependency Inpt. Unit					✓	
	PATIENT SUPPORT SERVICES						
78	Health Sciences Library	✓		✓	✓		
66	Hospital Auxiliary	✓	✓	✓	✓		
62	Organized Social Work Services	✓	✓	✓	✓	✓	✓
67	Patient Representative Services	✓		✓	✓	✓	
27	Patient Education	✓	✓	✓	✓	✓	✓
68	Volunteer Services Department	✓	✓	✓	✓	✓	✓

Source: American Hospital Association Guide to the Health Care Field, 1992.